

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L HELSINKI 0663

EO 11652: GDS
TAGS: EFIN, FI
SUBJECT: DEVELOPMENTS RE POSSIBLE DEVALUATION OF FINNMARK

REF: HELSINKI 0651

1. SUMMARY: BANK OF FINLAND AND GOVT NOW ENGAGED IN WORKING OUT NEW FOREIGN EXCHANGE POLICY IN WAKE OF SWEDISH CROWN DEVALUATION. FINNISH FOREIGN EXCHANGE MARKETS ARE CLOSED AT LEAST UNTIL 12 NOON APRIL 5. SENIOR BANK OF FINLAND OFFICIAL HAS TOLD AMBASSADOR IN STRICT CONFIDENCE THAT BANK OF FINLAND RECOMMENDS DEVALUATION OF GENERAL MAGNITUDE OF SWEDISH DEVALUATION AND INDICATED HE FORESEES GOVERNMENT APPROVAL TODAY. OTHER INDICATIONS ARE THAT GOVERNMENT WILL DECIDE NO EARLIER THAN TOMORROW. SOME DEVALUATION GENERALLY EXPECTED, BUT ESTIMATES OF SIZE VARY WILDLY. END SUMMARY.

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2. FINLAND'S FOREIGN EXCHANGE MARKETS WILL REMAIN CLOSED AT LEAST UNTIL 12 NOON APRIL 5. PREDOMINANT VIEW AMONG BANKERS IS THAT DECISION ON DEVALUATION NOT LIKELY IMMEDIATELY AND THAT BANK OF FINLAND WILL KEEP FOREIGN EXCHANGE MARKETS CLOSED UNTIL AFTER EASTER VACATION. THIS WOULD GIVE BANK OFFICIALS TIME TO ASSESS LEVEL OF SWEDISH CROWN IN INTERNATIONAL MARKETS AND TO CONTINUE CONSULTATIONS

UNDER WAY TODAY WITH MAJOR ECONOMIC GROUPS IN FINLAND.
MIKA TIIVOLA, PRES OF SECOND LARGEST COMMERCIAL BANK, HAS
EXPRESSED PUBLICLY HOPE THAT BANK OF FINLAND WILL MAKE
QUICK DECISION. FINLAND NEEDS ABOUT FMK 300 MILLION
OF FOREIGN EXCHANGE FOR NORMAL BUSINESS DAY AND CLOSURE OF
FOREIGN EXCHANGE MARKET FOR MORE THAN WEEK COULD SEVERELY
INTERRUPT FOREIGN TRADE. FINNISH TRAVELERS CAN GET FOREIGN
EXCHANGE, BUT WILL HAVE TO PAY DIFFERENCE BETWEEN OLD
EXCHANGE RATE AND NEW EXCHANGE RATE ONCE BANK OF FINLAND
MAKES NEW QUOTATION FOR FINNMARK. BOARD OF CUSTOMS HAS
ANNOUNCED THAT ALL IMPORTS AS OF APRIL 4 WILL BE VALUED AT
RATE QUOTED ON FIRST DAY EXCHANGE MARKETS ARE OPENED.
REPRESENTATIVES FROM LABOR (SAK) AND BUSINESS (STK) HAVE
BEGUN INFORMAL NEGOTIATIONS ON HOW THE LIKELY DEVALUATION
WILL AFFECT WAGE AGREEMENTS MADE UNDER GUIDELINES SET OUT
IN LIINAMAA PROPOSALS.

3. PRIMIN MARTTI MIETTUNEN TOLD EMBOFF AT EMBASSY RECEPTION
THAT DEVALUATION DECISION WILL NOT BE MADE TODAY. HE
SAID THAT BANK OF FINLAND CONTINUES NEGOTIATIONS WITH
ECONOMIC INTEREST GROUPS AND THAT BOARD OF MANAGEMENT OF
BANK OF FINLAND WILL MEET AT 4 P.M. TO PREPARE PRELIMINARY
POSITION FOR GOVT CONSIDERATION AFTER WHICH BANK OF FINLAND
OFFICIALS WILL MEET GOVT LEADERS IN LATE EVENING TO CONSIDER
ALTERNATIVE COURSES FOR FINLAND AND TO REVIEW REACTION
OF FOREIGN EXCHANGE MARKETS TO SWEDISH CROWN DEVALUATION.
PRIMIN SAID TUESDAY IS EARLIEST POSSIBLE DATE FOR DEVALUA-
TION DECISION AND FINNISH FOREIGN EXCHANGE MARKETS WILL
REMAIN CLOSED UNTIL GOVT AND BANK OF FINLAND TAKE FINAL
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POSITION ON DEVALUATION QUESTION. ALTHOUGH DEVALUATION OF
SWEDISH CROWN CAME AS COMPLETE SURPRISE TO GOVT, PRIMIN
MENTIONED THAT DIRECTOR OF SWEDISH CENTRAL BANK TALKED
EARLIER WITH BANK OF FINLAND GOVERNOR, MAUNO KOIVISTO,
ABOUT LIKELIHOOD OF CROWN DEVALUATION, BUT GAVE NO
INDICATION OF WHEN OR HOW MUCH SWEDES PLANNED TO DEVALUE
THEIR CURRENCY.

4. SENIOR BANK OF FINLAND OFFICIAL INDICATED TO AMBASSADOR
IN STRICT CONFIDENCE THAT BANK OF FINLAND WOULD RECOMMEND
TODAY DEVALUATION OF GENERAL MAGNITUDE OF SWEDISH DEVALUA-
TION. BANK OFFICIAL FURTHER INDICATED THAT GOVT WOULD
APPROVE BANK OF FINLAND RECOMMENDATION TONIGHT.

5. BANK OF FINLAND HAS ANNOUNCED PUBLICLY THAT ITS
DECISION REGARDING FINNMARK DEVALUATION
MUST SATISFY TWO CRITERIA: (A) THAT IT PROVIDE A
CREDIBLE, DURABLE SOLUTION; (B) THAT IT HELP SETTLE
LABOR UNREST.

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